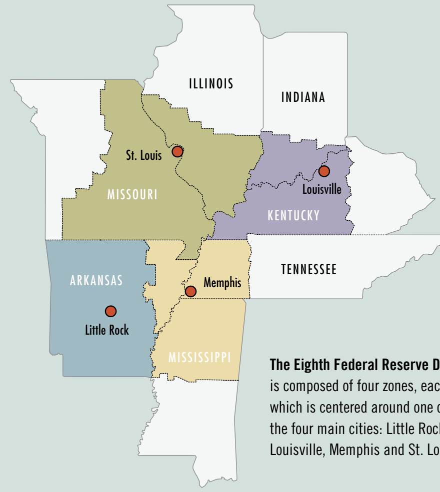


The Eighth Federal Reserve District is composed of four zones, each of which is centered around one of the four main cities: Little Rock, Louisville, Memphis and St. Louis.

District Fares Better Than Nation as Housing Market Crumbles

By Michael R. Pakko

One of the top national economic news stories of 2007 was the decline in the housing market. Home prices fell, sales spiraled downward and many mortgage borrowers—particularly those in subprime borrowing categories—were unable to maintain their commitments. With a glut of unsold homes, new construction was at a standstill.

So goes the conventional narrative.

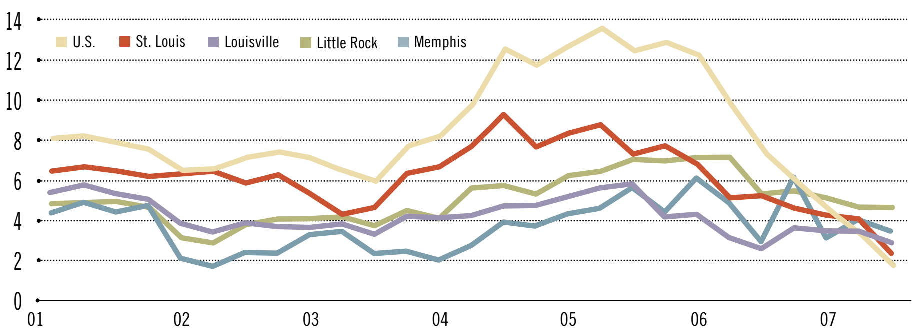
But housing markets are, by their very nature, localized. Many of the characteristics of housing prices, construction and sales are particular to local communities. Data for the Eighth Federal Reserve District show that while some aspects of the overall 2007 housing decline are reflected locally, the District has not suffered some of the most detrimental developments that have affected other parts of the country. Even across regions within the District, experiences differ.

Generally, areas of the country that saw the largest increases in house prices during the boom years of 2004 and 2005 are those that have suffered the largest price declines more recently. For example, according to data from the Office of Federal Housing Enterprise Oversight (OFHEO), house prices in San Diego were rising at an annual rate of over 25 percent in 2004. As of the third quarter of 2007, San Diego house prices were 5.1 percent lower than a year earlier. In contrast, house prices in the St. Louis metro area never accelerated to double-digit rates, rising at an average annual rate of 7.6 percent over 2004 and 2005. Yet house prices in St. Louis continue to increase, albeit at a lower rate: 2.3 percent for the year ending in the third quarter of 2007.

FIGURE 1

House Price Indexes for Large Metro Areas

YEAR-OVER-YEAR PERCENT CHANGES



SOURCE: Office of Federal Housing Enterprise Oversight (OFHEO)

As shown in Figure 1, all four major metro areas in the Eighth District show similar patterns. None experienced rates of appreciation over 10 percent during the house-price boom years, and all four show year-over-year growth rates that exceed the national average for the third quarter of 2007. In fact, none of the 18 metro areas within the District has shown a price decline on a year-over-year basis for the period. (See Figure 2.)

An alternative measure of house price changes, the National Association of Realtors' median house price estimate, is available for five of the District's metro areas. (See sidebar.) By this measure, house prices have shown somewhat greater weakness: As of the third quarter of 2007, the median price in St. Louis is down 2.5 percent from the previous year. For Memphis, the median is down 2.8 percent, and for Louisville, it is down 0.4 percent. The median was unchanged from a year earlier for Springfield, Mo., and up 2.1 percent for Little Rock.

New home construction has slowed, but not come to a standstill in the District: Year-to-date building permits are down from the previous year over much of the District, but the declines have been smaller than the national average for most metro areas. (See Figure 2.) Some of the metro areas showing the largest percent changes (both negative and positive) are relatively small; so, a minor change in the number of permits translates into a large percentage change. Summing over all metro areas in the District, nearly 36,000 permits were issued over the first 10 months of 2007, down about 16 percent from the previous year.

Similarly, state-level data suggest that the Eighth District has fared better than the national average. (See Figure 3.) Five of the seven states showed positive house price appreciation in the third quarter, and price increases in all seven have outpaced the U.S. average over the previous year. Existing home sales are down in each of the seven states, but only for Illinois is the magnitude of the decline greater than the national average. State-level data also show that employment in the construction sector has declined over the past year in only one state, Arkansas. In all other states, construction employment has remained steady or increased—again in contrast to the national average.

Clearly, the downturn in the housing sector has nationwide and local implications. But housing markets in the Eighth Federal Reserve District have fared better than the national average. Ω

Michael R. Pakko is an economist at the Federal Reserve Bank of St. Louis.

FIGURE 2 **Housing Market Indicators for Eighth District Metro Areas**

	House Price Indexes (OFHEO)		Building Permits, Year-to-Date (Oct.)		
	Percent Change (Annual Rate) 2007:Q3	Percent Change from Previous Year	Total Units	Percent Change from Previous Year	Single Family, Percent Change from Previous Year
Large Metro Areas					
St. Louis, Mo.-Ill.	–0.1	2.3	9339	–12.1	–18.4
Little Rock-North Little Rock, Ark.	1.2	4.6	2588	–20.6	–19.7
Louisville-Jefferson County, Ky.-Ind.	1.1	2.8	5544	10.4	–4.7
Memphis, Tenn.-Miss.-Ark.	–0.3	3.4	6932	–21.8	–28.5
Small and Medium Metro Areas					
Bowling Green, Ky.	5.0	2.5	735	–8.9	–4.4
Columbia, Mo.	–0.3	2.4	1188	–34.8	–5.8
Elizabethtown, Ky.	0.1	4.6	612	4.6	–16.9
Evansville, Ind.-Ky.	–3.0	2.6	915	–6.6	–30.0
Fayetteville-Springdale-Rogers, Ark.-Mo.	–2.2	1.7	2861	–44.1	–44.3
Fort Smith, Ark.-Mo.	5.0	4.4	827	39.7	10.0
Hot Springs, Ark.	0.5	5.3	83	–30.3	–30.3
Jackson, Tenn.	–1.3	2.6	464	–26.0	–32.0
Jefferson City, Mo.	10.2	3.8	160	–49.0	–30.3
Jonesboro, Ark.	–13.1	0.7	450	–18.9	–0.2
Owensboro, Ky.	0.5	3.9	357	23.1	–4.9
Pine Bluff, Ark.	20.5	5.1	56	–58.8	–31.6
Springfield, Mo.	–0.1	3.3	2464	–9.8	–38.5
Texarkana, Texas-Texarkana, Ark.	30.1	8.2	362	94.6	24.8
United States	–1.4	1.8	1216071	–24.5	–28.4

SOURCES: Office of Federal Housing Enterprise Oversight, Bureau of the Census

FIGURE 3

Housing Market Indicators for Eighth District States

	House Price Indexes (OFHEO)			
	Percent Change (Annual Rate) 2007:Q3	Year-over-Year Percent Change	Existing Home Sales, Percent Change from Previous Year (Q3)	Payroll Employment-Construction (Oct.) Percent Change from Previous Year
Arkansas	0.9	4.1	–12.3	–1.6
Illinois	0.1	2.5	–17.6	0.0
Indiana	–0.1	2.0	–9.4	2.7
Kentucky	2.5	3.7	–7.2	0.8
Mississippi	5.4	5.1	–3.3	7.6
Missouri	–0.3	2.7	–11.0	2.9
Tennessee	3.8	6.0	–11.3	5.6
United States	–1.4	1.8	–13.7	–1.6

SOURCES: Office of Federal Housing Enterprise Oversight, National Association of Realtors, Bureau of Labor Statistics

Measuring Housing Prices

There are three commonly cited measures of existing house prices that are available for specific metro areas: The National Association of Realtors (NAR) publishes estimates of median house prices, the Office of Federal Housing Enterprise Oversight (OFHEO) publishes a quarterly weighted-average house price index and Standard & Poors publishes the S&P/Case-Shiller home price index.

The median price is simply the price at which half of the homes sold are more expensive and the other half are less expensive. Therefore, the NAR median price index can change even when prices of particular houses are unchanged: For example, fewer sales of expensive homes compared with relatively cheaper homes moves the median lower. In this sense, it provides information about the distribution of home sales by price. The median price index is calculated only for the largest 156 metro areas in the U.S.; so, it covers only five of the metro areas in the Eighth Federal Reserve District.

The OFHEO index is a weighted-average measure, constructed using a matched "repeat sales method"—meaning that it measures average price changes in repeat sales or refinancings on the same properties. Because the OFHEO index of house prices includes only those that are purchased or securitized by FannieMae and FreddieMac, the index includes only those houses with conventional, conforming mortgages, not "jumbo" mortgages (currently, those over $417,000).

The S&P/Case-Shiller index is also calculated as a repeat-sales index, but it includes jumbo mortgages. However, it is constructed for only 20 of the nation's largest metropolitan areas. Most jumbo mortgages are issued in California, New York, Florida and Washington, D.C. For many of these metro areas, jumbo loans are, indeed, an important segment of the housing market. Nationwide, jumbo loans accounted for 16 percent of mortgage originations in 2006.

The areas most reliant on jumbo loans tend to be those where home prices have suffered the greatest declines. Hence, although the Case-Shiller index may be more accurate for measuring housing prices in those areas, it is not necessarily an accurate reflection of housing prices in other parts of the country. Indeed, none of the 20 cities in the index is in the Eighth District.

As of 2007:Q3, the national totals for these three measures of housing prices showed year-over-year growth rates of –2 percent (NAR median), +1.8 percent (OFHEO) and –4.5 percent (Case-Shiller).